

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE	)	
WATER SERVICE RATE OF THE CITY OF	)	CASE NO. 98-497
AUGUSTA, KENTUCKY	)	

ORDER

On July 14, 1999, the Commission issued a final Order on the application of the city of Augusta, Kentucky ("Augusta") for an adjustment of its wholesale water service rate to Bracken County Water District ("Bracken District"). Augusta and Bracken District subsequently petitioned for rehearing to present further evidence on the amount of "treated water sold" and the amount of undercharges resulting from Augusta's earlier wholesale water service rate. Having granted the petition and considered the evidence adduced on rehearing, we authorize Augusta to assess a wholesale water service rate of \$1.30 per 1,000 gallons and a surcharge of 33 cents per 1,000 gallons on Bracken District to collect certain "undercharges."

In our Order of July 14, 1999, we rejected that portion of the parties' Settlement Agreement in which they stipulated that Augusta's wholesale rate should be \$1.30 per 1,000 gallons. We took this action because the record contained "insufficient evidence to conclude that the proposed rate was reasonable."<sup>1</sup> More specifically, the Commission found no evidence to support the parties' contention that "the total gallons

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<sup>1</sup> Order of July 14, 1999 at 3.

of treated water sold” during the test period was 204 million gallons.<sup>2</sup> Instead we established a wholesale rate of \$1.21 using Augusta’s total water production of 219,366,100 gallons during the test period. As we explained in the Order of July 14, 1999, the use of total water production appeared more reasonable

because of the lack of jointly used water mains. Simply put, Bracken District receives its water very near Augusta’s water treatment plant. The water main that connects the water treatment plant to Bracken District’s distribution system was recently constructed and therefore unlikely to experience any significant water loss. Using total number of gallons of treated water ensures that Bracken District is not allocated water line loss that is attributable to Augusta’s retail sales.

Order of July 14, 1999 at 4. We further found no evidence that “total gallons of treated water sold’ represents only the amount of water that left Augusta’s [water] treatment plant and entered Augusta’s distribution system.” Id.

The parties presented evidence on rehearing that clearly shows that only 204 million gallons were actually delivered from Augusta’s water treatment plant to Augusta and its wholesale customer. The Chief Operator of Augusta’s water treatment plant stated in a sworn affidavit that a master meter records the amount of water delivered to Augusta’s distribution system. He further stated that this meter’s readings show that approximately 53 million gallons of water was delivered to Augusta’s distribution system

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<sup>2</sup> As shown below, use of this amount produces a wholesale rate of \$1.30 per 1,000 gallons:

$$\begin{aligned} &\textbf{Total Cost of Water} \div \textbf{Total Gallons Sold} = \textbf{Rate.} \\ &\text{Total Cost of Water} = \$264,446. \\ &\text{Total Gallons Sold} = 204,000,000 \text{ gallons.} \\ &\$264,446 \div 204,000,000 \text{ gallons} = \$1.30 \text{ per } 1,000 \text{ gallons.} \end{aligned}$$

during the testing period.<sup>3</sup> When the total gallons delivered to Augusta's distribution system are added to Augusta's metered sales to Bracken District, the parties' contention that the total amount sold is 204 million gallons appears reasonable. Moreover, it suggests that the proposed rate of \$1.30 per 1,000 gallons rate will not result in Bracken District bearing any costs associated with water line loss incurred to serve Augusta's retail customers.

In the Order of July 14, 1999, the Commission also rejected the parties' stipulation that from the time Augusta's water treatment plant began operations until June 30, 1999, Augusta recovered approximately \$145,000 less than its actual cost to serve Bracken District. We found no evidence to support such stipulation.

Following the issuance of this Order, Augusta retained James H. Smith, a certified public accountant, to review the expenses of Augusta's water treatment plant from October 1996 to October 1998 and to report his findings. In his written report,<sup>4</sup> Smith concluded that, for the period under review, Augusta's wholesale rate produced revenues that were \$114,383 less than Augusta's cost to serve Bracken District. Both utilities accept Smith's findings and agree that a \$0.33 per 1,000 gallons surcharge should be assessed to permit Augusta's recovery of these costs.

Having reviewed Smith's report and the proposed surcharge, the Commission finds that the proposed surcharge is supported by the evidence of record, is reasonable,

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<sup>3</sup> Affidavit of Michael C. Jarvis at 1.

<sup>4</sup> James H. Smith, Report On Operating Expenses – Water Treatment Plant – City of Augusta and Bracken County Water District (September 10, 1999).

and is consistent with the terms of the parties' Water Purchase Contract.<sup>5</sup> Accordingly we find that the proposed surcharge should be approved. We further find that future calculations of water treatment costs for billing adjustment purposes should be based upon Augusta's fiscal year operations (July 1 through June 30), rather than its calendar year operations (January 1 through December 31).

IT IS THEREFORE ORDERED that:

1. The Settlement Agreement between Augusta and Bracken District, appended hereto, is approved.

2. Augusta's rate for wholesale water service rendered to Bracken District on and after the date of this Order shall be \$1.30 per 1,000 gallons of water.

3. Augusta is authorized to assess a surcharge of \$.33 per 1,000 gallons on water sales to Bracken District on and after the date of this Order until it has collected revenues of \$114,383 from this surcharge.

4. For each year that the surcharge remains in effect, Augusta shall file with the Commission no later than January 31 of the following year a written report of its total water sales to Bracken District during that year, its total surcharge revenue for that year, and its total surcharge revenue since the surcharge was initiated.

5. For future adjustments to Augusta's wholesale rate made pursuant to the Variable Rate Schedule of the parties' Water Purchase Contract, adjustments to the variable rates shall be based upon Augusta's fiscal year operations (July 1 to June 30).

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<sup>5</sup> Section 2(e) of the Variable Rate Schedule of this contract expressly provides that the wholesale rate should be based upon "demonstrable costs" and that an "adjustment to the previous year's billings shall be made by the Seller to reflect actual costs."

6. Within 30 days of the date of this Order, Augusta shall file with the Commission revised tariff sheets reflecting the rates approved herein and the modifications to its Water Purchase Contract with Bracken District.

Done at Frankfort, Kentucky, this 14<sup>th</sup> day of February, 2000.

By the Commission

ATTEST:

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Executive Director

APPENDIX

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 98-497 DATED FEBRUARY 14, 2000